

FDIC State Profile

WINTER 2003

New Jersey

The New Jersey economy is growing, with jobs being added in all of the state's metropolitan areas and across most industry sectors through third quarter 2003.

- Employment performance in New Jersey has exceeded the nation for two years, and continues to show signs of strength (see Chart 1). For the first time since March 2001, the state's eight metropolitan statistical areas (MSAs) recorded year-over-year job growth in third quarter 2003.
- The *Monmouth-Ocean*, *Middlesex*, *Atlantic-Cape May*, and *Bergen-Passaic* MSAs all underperformed the statewide job growth rate. Monmouth-Ocean's growth was held back by losses in the retail trade and financial industries, and Middlesex's growth was stunted by continued losses in the professional and business services sector. Atlantic-Cape May and Bergen-Passaic continue to lose manufacturing jobs.
- Job growth continues in many of the state's larger industry sectors, while, with few exceptions, job losses appear to be contained mostly in the state's smaller sectors (see Chart 2). Some of New Jersey's largest industries in terms of jobs such as education and health services, retail trade, government, and professional and business services are among the growing sectors. Information (including telecoms), utilities, and transportation are among those sectors still losing jobs.
- The rate of home price appreciation across New Jersey has slowed from the torrid pace of a year ago, though the state still enjoys net inward migration. While currently there is no "bursting bubble," the rates of appreciation in the state's eight metro areas have declined from their peaks. Only three areas, Atlantic-Cape May, *Jersey City* and Monmouth-Ocean, are still growing at double digit rates through third quarter 2003. These areas include suburbs of *New York City*, and in addition to the in-migration, some of the appreciation may be attributed to structural rigidities in the market, namely zoning restrictions and lack of space for new building.
- The Northern New Jersey office market improved modestly in third quarter 2003. According to **Torto-Wheaton Research**, the aggregate vacancy rate declined slightly to 16.7 percent in third quarter 2003. Completions fell slightly, while net absorption increased substantially (see Chart 3). The two weakest submarkets in northern New Jersey were Middlesex-Somerset-Hunterdon and Monmouth-Ocean. Not coincidentally, these two metro areas were also among the weakest in the state in terms of job growth.

Chart 1: New Jersey's Job Growth Appears to Be Gaining Momentum

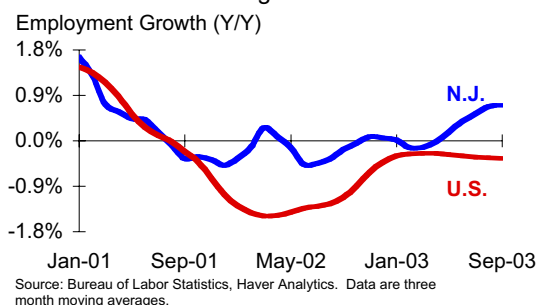


Chart 2: Losses in IT and Transportation Are More than Offset by Gains in Larger Sectors

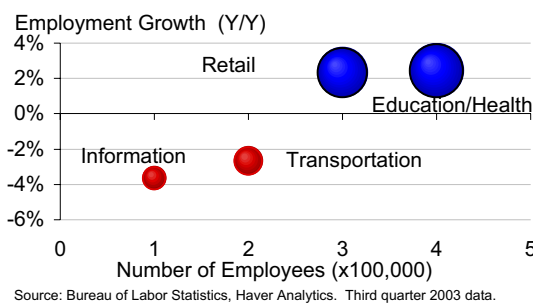
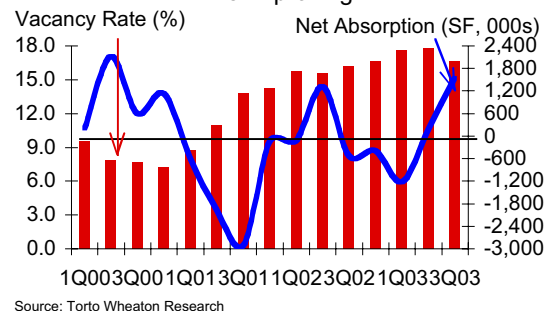


Chart 3: Northern New Jersey Office Conditions Are Improving



State Profile

The net interest margin (NIM) reported by the state's insured institutions declined steadily through mid-2003. Steepening in the yield curve could provide relief to NIMs but may pose some challenges.

- NIMs among the state's insured institutions contracted in the first half 2003 (see Chart 4). A 45-year low in long-term interest rates reached in June 2003 contributed to a decline in asset yields, while deposit costs neared floors.
- Long-term interest rates increased during the third quarter 2003, which contributed to a steepening of the yield curve. Although a steeper yield curve is traditionally positive for bank NIMs, insured institutions with high levels of long-term assets may not immediately benefit from increased long-term rates. Rising long-term interest rates may lead to moderation in demand for residential mortgages, an important source of fee income.
- The state's median ratio of long-term assets-to-average earning assets traditionally is above the nation (see Chart 5). A large proportion of residential mortgage lenders (37 percent of the state's insured institutions specialize in mortgage lending) and the popularity of long-term mortgage products in metropolitan areas of the Northeast contributed to the higher ratio.¹ Additionally, liability maturities are comparatively shorter, as most liabilities mature or reprice within three years. Insured institutions with large concentrations of long-term assets coupled with maturity mismatches between in assets and liabilities could face some margin compression, asset depreciation, and extension in asset duration should interest rates rise. This heightens the importance of proper interest rate risk management.

Insured institutions headquartered in New Jersey continued to report favorable asset quality; however, exposure to typically higher-risk loans has increased.

- The median past-due loan ratio slightly increased in the first half 2003 but was lower than levels recorded in the prior two years and less than half the national rate, reflecting, in part, the state's more favorable economic performance relative to the nation (see Chart 6).
- The percentage of New Jersey's insured institutions holding concentrations of traditionally higher-risk loans (HRL) has increased in recent years.² As of

Chart 4: NIM Has Contracted through First Half 2003, although Yield Curve Has Since Steepened

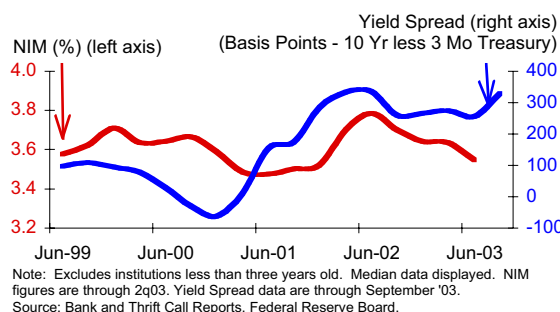


Chart 5: Long-Term Asset Concentrations Are Higher Among Banks in New Jersey

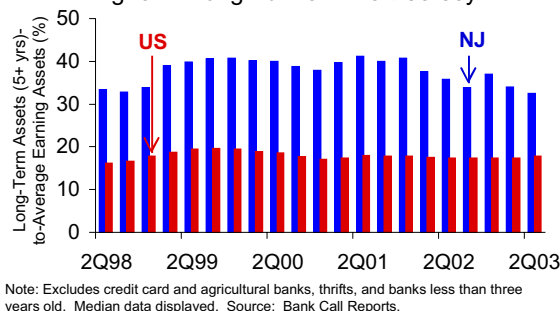
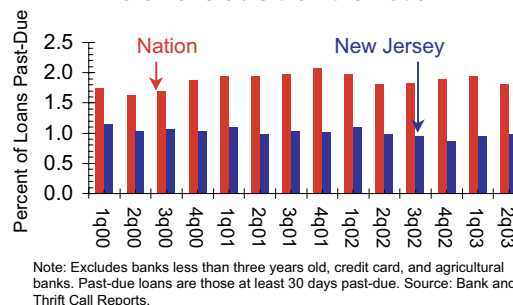


Chart 6: New Jersey's Past-Due Ratio Remains More Favorable than the Nation



June 2003, 40 percent of the state's insured institutions reported HRL concentrations of at least 300 percent of capital, up from 24 percent five years ago. Almost 40 percent of these institutions were chartered during the 1990s expansion.

¹ "Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage backed securities.

² "Higher risk loans" are defined as commercial and industrial, commercial real estate, and construction and development loans.

State Profile

New Jersey at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	147	153	151	149	145
Total Assets (in thousands)	146,129,965	127,334,658	111,729,706	160,260,179	145,349,084
New Institutions (# < 3 years)	11	21	29	23	19
New Institutions (# < 9 years)	43	43	43	36	27
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.86	9.70	10.54	9.64	9.31
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	0.77%	0.93%	0.83%	0.88%	1.26%
Past-Due and Nonaccrual > = 5%	4	6	8	8	14
ALLL/Total Loans (median %)	1.04%	0.98%	0.96%	0.90%	0.95%
ALLL/Noncurrent Loans (median multiple)	2.51	2.17	2.11	1.95	1.36
Net Loan Losses/Loans (aggregate)	0.13%	0.24%	0.23%	0.29%	0.28%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	14	21	26	23	20
Percent Unprofitable	9.52%	13.73%	17.22%	15.44%	13.79%
Return on Assets (median %)	0.82	0.83	0.66	0.78	0.77
25th Percentile	0.46	0.52	0.26	0.42	0.45
Net Interest Margin (median %)	3.60%	3.73%	3.51%	3.74%	3.60%
Yield on Earning Assets (median)	5.35%	6.22%	7.13%	7.33%	7.00%
Cost of Funding Earning Assets (median)	1.78%	2.39%	3.70%	3.62%	3.34%
Provisions to Avg. Assets (median)	0.07%	0.10%	0.08%	0.07%	0.08%
Noninterest Income to Avg. Assets (median)	0.35%	0.38%	0.37%	0.38%	0.36%
Overhead to Avg. Assets (median)	2.65%	2.79%	2.83%	2.72%	2.66%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	66.22%	69.23%	69.75%	71.25%	68.67%
Loans to Assets (median %)	56.58%	57.40%	58.23%	58.77%	56.36%
Brokered Deposits (# of Institutions)	21	18	12	12	11
Bro. Deps./Assets (median for above inst.)	3.71%	5.43%	11.54%	1.42%	0.93%
Noncore Funding to Assets (median)	15.42%	14.94%	13.74%	13.79%	10.89%
Core Funding to Assets (median)	73.07%	73.98%	73.08%	74.05%	76.74%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	51	52	51	48	43
National	22	24	24	25	26
State Member	6	6	5	5	5
S&L	11	11	11	13	16
Savings Bank	31	34	34	31	29
Mutually Insured	26	26	26	27	26
MSA Distribution		# of Inst.	Assets	% Inst.	% Assets
Newark NJ PMSA		32	15,152,863	21.77%	10.37%
Bergen-Passaic NJ PMSA		27	48,505,884	18.37%	33.19%
Philadelphia PA-NJ PMSA		21	19,147,429	14.29%	13.10%
Middlesex-Somerset-Hunterdon NJ PMSA		21	28,635,423	14.29%	19.60%
Monmouth-Ocean NJ PMSA		11	6,341,242	7.48%	4.34%
Jersey City NJ PMSA		11	17,109,331	7.48%	11.71%
Trenton NJ PMSA		10	5,512,315	6.80%	3.77%
Atlantic-Cape May NJ PMSA		9	2,351,653	6.12%	1.61%
Vineland-Millville-Bridgeton NJ PMSA		5	3,373,825	3.40%	2.31%